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Jay C. Keithley
Vice President
Law and External Affairs
United Telephone Companies

May 20, 1994

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MAY 20 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: In the Matter of Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992: Rate Regulation MM Docket No. 93-215

Adoption of a Uniform Accounting System for Provision of Regulated Cable Service, CS Docket No. 94-28

Amendment of Parts 32 and 64 of the Commissions' Rules to account for Transactions between Carriers and Their Nonregulated Affiliates, CC Docket No. 93-251

Dear Mr. Caton:

Representatives of Sprint Corporation today met with Messrs. Kenneth Ackerman, William Kehoe and Edward Dashkin of the Accounting and Audits Division, Common Carrier Bureau, Ms. Karen Brinkman of Chairman Hundt's office, Mr. Rudy Baca of Commissioner Quello's office and Jim Colthorp of Commissioner Barrett's office to discuss Sprint's position in the above referenced matters. Representing Sprint Corporation were Jay Keithley, Alan Sykes, Ralph Hodge and Warren Hannah.

Sincerely,

Jay C. Keithley
Vice President
Law and External Affairs

Attachment

cc: Kenneth Ackerman
William Kehoe
Edward Dashkin

Karen Brinkman
Rudy Baca
Jim Colthorp

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Sprint Corporation

ON BEHALF OF THE

UNITED AND CENTRAL TELEPHONE COMPANIES

MAY 20, 1994

Presentation before the FCC
CC Docket No. 93-251
Changes to Affiliate Transaction Rules

SPRINT REPRESENTATIVES:



Jay Keithley
Vice President
Law & External Affairs
Washington, DC

Alan Sykes
Vice President
Revenues
Kansas City, MO

Ralph Hodge
Assistant Vice President
& Assistant Controller
Kansas City, MO




Warren Hannah
Director
Fed. Regulatory Relations
Washington, DC

Sprint's POSITION:




-  The proposed “Bright Line Test” is not appropriate where actual sales to non-affiliates establish market price to affiliates.
-  The proposed use of “estimated fair market value” for services is not appropriate because valuation of comparability, availability, and capability is completely subjective.

The proposed rules are counter to the intuitive value of centralization and economies of scale, and they penalize efficiency. They paint with too broad a brush.

Sprint North Supply is a competitive wholesale distributor of telecommunications equipment where prices are established by the market. The Sprint companies purchase equipment from North Supply at these market prices which are better than the prices they could otherwise obtain in the marketplace.

-  Approximately 60% of North Supply sales are to non-affiliates.
-  The Sprint companies benefit from North Supply's volume purchases.
-  North Supply's sales prices to non-affiliates set the prices to affiliates; the competitive market ensures that prices are reasonable.

Sprint United Management Company provides centralized services, management, and control to the Sprint companies on a cost center basis. These centralized services are vital to the economies of operating small, geographically dispersed companies.

-  Determining the “estimated fair market value” of centralized services is entirely subjective and will unduly complicate the audit process.
-  The proposed rule creates incentives to decentralize and increase costs.
-  Fully distributed costing is the only equitable method to distribute centralized costs to the beneficiaries of centralization.

The Commission's current rules, reporting and enforcement are working. If additional rules are needed for enforcement purposes, they should be reasonable and they should not penalize efficiency.

State Regulators add an additional layer of scrutiny and enforcement to affiliate transactions.

- ☎ In state proceedings, North Supply's prices have never been found to be unreasonable, and the distribution of Sprint United Management Company's fully distributed cost to the Sprint companies is generally accepted.